# Friday@Noon

**A weekly African news briefing for the Southeast Asian community**

**Editor: Johan Burger**

NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE | NTU-SBF Centre for African Studies, Nanyang Business School

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## Africa:

- **Africa:** Africa's population is rapidly growing and is expected to hit 4 billion by 2100. The Ibrahim Foundation says governments are falling short in improving the business environment to employ their growing, and mostly young, populations.

  Almost half of Africa's citizens (43.2%) live in a country where sustainable economic opportunities have declined in the last decade. Reconciling job creation in Africa with developmental gains as demographics change, has become an issue of concern for global leaders outside Africa. Current African leaders, however, have been mostly reluctant to engage this discussion with much enthusiasm. Former Nigerian president Olusegun Obasanjo did warn African countries they face the prospect of their young demographic advantage turning to a liability if governments don't better prepare. In many African countries, the lack of political will, suspicion about foreign funding, and in some cases religion, have stymied the conversation around family planning. Mo Ibrahim now says governments, civil society, and media all need to have "a frank and open discussion" about population growth if they are to handle the issue well. Governments should improve business environments to attract investment opportunities and create more jobs. For more information, read: https://bit.ly/2qu8bZj.

  CAS Analysis: Africa's population growth is projected as an asset for those interested in a huge market, with a growing middle class the sweetener. Together with a strong urbanisation drive, these factors have caused corporates interested in Africa to develop a city strategy, rather than a country strategy, and definitely not an Africa strategy. The concern expressed above by the likes of former Nigerian president, Olusegun Obasanjo, is a valid one. I have frequently remarked upon the imperative to find jobs for the growing unemployed and desolate youth migrating to the cities, where they become frustrated. Political analyst Moeletsi Mbeki, brother of the former South African president Thabo Mbeki, is on record stating that should South Africa not deal with its youth unemployment, it would have its own Arab Spring by 2020. As it is, we are seeing the youth in South Africa starting to support the radical EFF in greater numbers, and are leaving the ANC. It must be stated, however, it is not just a South African problem, but a continental one. Africa ignores the frustrations of its youth at its own peril. It is also an issue about food security. Africa's agriculture sector cannot currently feed the 1.2 billion population of Africa. Feeding Africa's 2.4 billion by 2050 and more than 4 billion by 2100, therefore remains an even more serious challenge. This inevitably will exacerbate the overall challenge of maintaining stability and a healthy security climate.

- **Africa:** Raila Odinga, the recently appointed AU special envoy for infrastructure development in Africa, has announced plans to link Africa through modern highways and railways. As the Kenyan opposition leader, he indicated that linking Kenya to Nigeria via road will be among his priorities as the AU's high representative of infrastructure and development.

  Odinga intends to oversee the construction of 60,000 km of highways linking the entire continent and the Trans-African highway project commissioned in 1971 to open up Africa for trade. Some of the primary projects include an 8,000 km highway linking Cairo to Dakar. Another 8,0000 km road will link Cairo and Cape Town. A 6,000 km road linking Mombasa to Lagos is part of this ambitious project. Odinga, who believes that land transport is an integral part of Africa's economic growth, added he intended to have another 4,700 km of road between Dakar and Lagos built. Of 9 highways proposed over 4 decades ago, only the 4,500 km road between Dakar and N'Djamena in Chad had been constructed. Having reliable road infrastructure and railways linking all corners of Africa will open up the continent. For more information, read: https://bit.ly/2SB0UU4.

  CAS Analysis: Africa's intra-continental trade is at a low 15%, approximately. One of the hurdles in increasing this percentage is the lack of good transport infrastructure, such as roads, rails, ports and airports. Everyone by now knows that it is more expensive to move a container from Mombasa harbour in Kenya to Kigali in neighbouring Rwanda than it is to move that same container from Shanghai in China to Mombasa in the first place. It is also easier for Africa to trade with the EU than it is to trade with itself. Food security in the rural areas of Africa is also constrained by the lack of proper road infrastructure. The AU's plans to connect the various parts of Africa with modern highways and railways will therefore be a welcome project. Improving this transport sector will also have a beneficial impact on the regional integration of Africa.

## East Africa:

- **East Africa:** Kenya is losing its lead position in FDI to Ethiopia. This has happened as new investors turn their focus on the latter following wide-ranging socio-economic reforms. Ethiopia could surpass Kenya in the value and number of capital projects in less than 2 years.

  An EY report on FDI readiness ranks Kenya third in Africa after South Africa and Morocco in attracting investors with 67 FDI projects. According to EY, Kenya marked a 68% increase in the number of investment projects last year, compared with 2016. Investment in the telecommunications and technology sector was up 44%, which can be attributed to Kenya's relatively developed labour pool in the sector and high adoption of smartphones. Ethiopia was ranked fifth with 62 projects, marking a 288% increase in the number of projects funded last year compared to 2016. This has seen Ethiopia rise 7 spots in the index. It ties with Kenya and Nigeria at 9% in terms of the share of FDI to sub-Saharan Africa. Consumer products and retail (textiles) and real estate, hospitality and construction were responsible for three-quarters of this surge. The recent opening up of the telecoms, shipping, power generation and aviation sectors to foreign investment will prove to be a boost to investor interest. For more information, read: https://bit.ly/2SBhN16.

  CAS Analysis: FDI flows come and go, as new prospects are highlighted. Ethiopia has been the flavour of the month for quite a while, in spite of ethnic clashes and the low availability of foreign currency. Its stated policy of industrialising agriculture and boosting its manufacturing sector played a role, as did the development of industrial parks (eventually there will be 17) all over Ethiopia. The appointment of a new prime minister, the young Abij Ahmed, who started with a number of political and economic reforms, and who reached out to his neighbours, including Eritrea, gave further impetus to the increasing attraction of Ethiopia. On the other hand, Kenya still has a more sophisticated economy with a well-educated workforce. It also tends to be more stable from a security perspective. And it has one of the largest harbours in East Africa, acting as an entrepôt for Rwanda, Uganda and Burundi, to name but a few. The Kenyan government has also started to crack down on corruption. Both countries can actually be seen as attractive investment destinations in East Africa.

- **Ethiopia:** Nordic businesses are tapping into opportunities in Ethiopia despite challenges in the business environment. Potential investors and policy makers discussed the exploitation of these new opportunities at a recent conference.

  Challenges included telecom reach limitation, power outages, bureaucracy, red tape, foreign currency shortages, etc. However, there has been improvement in the past 6 months. Investing in the sectors prioritized by government significantly minimizes the challenges. There are great opportunities in long term projects, especially in local production of any kind, whether for export purposes or domestic distribution. The industrial parks, access to bank loans, financial incentives and access to new sectors like Telecom, energy and logistics are clear signals showing the willingness to change, learn and support both local and foreign investors by the government. Local pharmaceutical production, import of medical equipment and technologies, improving e-health systems, knowledge transfer and capacity building are some of the investment opportunities in the country in the health sector. The 5 university hospitals in the country are all expanding and looking for partners and investors to either collaborate or sign turn key agreements with. There should be more focus on developing the export sector bmo financial incentives and training local companies in export management. For more information, read: https://bit.ly/2RnQIwO.

  CAS Analysis: Ethiopia, as also indicated in the article above, is an attractive investment destination. Here we see some of the Nordic countries and corporations reaching out to the country in a meaningful way. These corporations include the likes of the well-known Ericson and H&M. The opportunities in Ethiopia are vast for those with the requisite risk appetite. It is good that the Nordic countries, which include Denmark, Finland, Iceland, Norway and Sweden, have targeted Ethiopia. Bringing their business acumen and technology competencies to Ethiopia can only benefit the latter. It is also an indication that they have trust in the future of Ethiopia, including in the governance of the country. The fact that the whole Horn of Africa is stabilising to a greater extent, with Eritrea and Ethiopia normalising their relationship, and Somalia also reaching out, creates a region that is becoming much more attractive than used to be the case a few years ago.

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## Southern Africa

- **South Africa:** Manuel Koser, one of the most successful tech investors in SA, helped to establish a number of leading online pioneers. He is keen on investment opportunities in the country.

  He is eyeing the following opportunities in SA: 1. Afro-centric products, like black dolls, are in demand on social media. There is a growing demand among African consumers long overlooked by global producers. 2. Online subscription businesses will keep booming. Whether it is a TV subscription or a music service, South Africans are showing more interest in streaming subscriptions. 3. Virtual voice home assistants will be big. The next big boom will be household appliances that can be operated with voice. Voice has shown growth as a new platform. Hot on its heels is tech which integrates AR, AI, machine learning, and VR. 4. SA is shifting to niche e-commerce for pet accessories, groceries, and luxury watches. South Africans are becoming more used to buying their goods online. 5. Two industries on the cusp of big change: insurance and security. Both are primed for disruption. South Africa has one of the largest private security forces in the world, which makes it an ideal location in which to develop systems for the rest of the world. For more information, read: https://bit.ly/2OhnFJB.

  CAS Analysis: South Africa has recently been highlighted in the media for all the wrong reasons. These include state capture, a corrupt former president, many corrupt high-ranking politicians, global consulting companies joining these corrupt stakeholders to grab a slice of the pie, and so we can go on. It is therefore refreshing to see a foreigner from Germany in South Africa identifying a whole range of investment opportunities for not only large corporates, but actually for young and small entrepreneurs as well. This is what South Africa needs. There are so many opportunities for people with the imagination to dream up solutions to needs and wants. I had the opportunity to meet a number of these young dreamers. One such a person is Lufefe Nomjana from the township of Khayelitsha near Cape Town. From the humble beginnings of S$4, a few leaves of spinach and a neighbour's oven, he has and is building a business (Espinaca Innovations – aka The Spinach King) based on health foods (spinach bread and muffins, smoothies, etc.). Another is Rushana Charles, the startup founder of the Little Mermaids Swimming School in Strandfontein, also close to Cape Town. She built the swimming school with virtually no external funding. Both these businesses now employ a number of people. South Africans need not look at starting the next Alibaba or Microsoft or Apple or Amazon, although it would be great if they could! They may start with very humble attempts. All the big names also did. As the saying goes, it is not where you start, but where you end.

- **Zambia:** Zambia has great potential to be the breadbasket of Southern Africa.

  During the extreme El Niño drought of 2015-2016, Zambia successfully yielded a food surplus and exported food to neighbouring countries in need. In normal circumstances, there is a consistent abundance of water that provides the perfect conditions for a thriving agricultural industry, which provides for the people of Zambia and its neighbouring countries. Zambia is at the forefront of an agri-revolution that aims to address the complex and interconnected problems of climate change. 'Super crops' have the potential to revolutionise agriculture in Africa. These new crops are having a significant impact on food production in a challenging environment. The UK Department for International Development will provide £55 million to support the work of the Africa Agriculture Development Company in countries that include Zambia. This will enable smallholder farmers to diversify their crops. New technology and data-driven farming will change the face of agriculture. The technology strengthens partnerships across crops and countries, establishing long-term, sustainable and responsible supply chains that benefit small-scale farmers. For more information, read: https://bit.ly/2AFkfN3.

  CAS Analysis: Africa should do everything possible to boost the productivity of its agriculture sector. For it to import US$35 billion of food annually is not acceptable. What is scarier is the projection that this figure will increase to over a US$100 billion over the next few decades. While the article highlights Zambia as a potential breadbasket of Southern Africa, various countries in Africa have the same potential. These include countries such as Angola, the DRC and South Africa, to name but 3. The sector will need to look at the effect of global warming, as this phenomenon can no longer be ignored or denied. Modern farming practices should be embraced, as well as all the technology available, which includes not only tractors, etc., but also mobile technology. Currently approximately 70% of Africa's workforce is involved in the agriculture sector. But the average age of the farmer is 63 years. This is not sustainable, and is caused by the fact that the youth are leaving the sector for the cities. Embracing modern technology and farming practices will hopefully transform the perception of agriculture from being a poor person's job to being a lucrative career.

## North Africa

- **Egypt:** Chinese tourism in Egypt has been growing fast since a "comprehensive strategic partnership" was agreed upon in 2014 — which encompasses trade, investment and political ties. Egypt started drawing closer to Russia and China to diversify its foreign relations and find allies other than its traditional partners in the US and Europe.

  Egypt is keen to attract Chinese investors to the big infrastructure projects that are a major part of Sisi's economic policy, including the building of a new capital. During Sisi's visit to Beijing in September 2018, he signed deals worth US$18 billion with Chinese companies covering a railway, real estate, energy projects and an oil refinery. Chinese companies have close to US$6 billion of investments in Egypt. More than 80% of these were made in the last 4 years. Cumulative Chinese FDI in Egypt totalled US$24.3 billion. Egypt's location and the Suez Canal are an incentive for increased co-operation within China's BRI. Egypt was taking care to diversify its sources of financing, noting that while China was involved in building a railway in Egypt, locomotives and train carriages were being bought elsewhere. There has also been an increasing flow of Chinese tourists coming to Egypt. Their numbers more than doubled in 2017 to 300,000 from 130,000 in 2016. Egypt exported US$408 million worth of goods to China in 2017 — 60% more than in 2016. For more information, read: https://on.ft.com/2OWJSSr.

  CAS Analysis: Egypt has frequently been punted the last few years as an attractive business environment and investment destination. The article clearly indicates a range of investment projects, primarily from China. It is interesting to note that since Sisi took over as president in 2014, Russia has also become more prominent in Egypt. In addition to building a 2000 ha industrial park along the newly revamped Suez Canal, Russian tourists are also increasing in numbers. It is estimated Russia will invest around US$4.6 billion in the construction of the industrial park by 2035. Bilateral trade between the two countries doubled to US$5.5 billion in 2014. Trade between them stood at US$4.6 billion during the period from January to October 2017, up by 59% compared to the same period a year earlier. Russia and Egypt held their first joint naval drills in June 2015, and military exercises in October 2016. Russia had also deployed special forces to Egypt on the Libyan border in March 2017, which signalled Russia's growing role in Libya. In October 2017, Cairo finalized negotiations with Moscow to build Egypt's first nuclear power plant. The project is expected to take 7 years and will cost US$29 billion. Russia will pay US$25 billion and Egypt will fund the remaining amount. Egypt is therefore clearly not depending on China as an investment and trading partner. Also, it is clear that it is finding allies outside of the USA and the EU.

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